Citizens Community Bancorp Inc.
Form 10-K
December 23, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended September 30, 2008 OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number: 001-33003

CITIZENS COMMUNITY BANCORP, INC.
(Exact name of small business issuer as specified in its charter)

Maryland	20-5120010
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2174 EastRidge Center, Eau Claire, Wisconsin	54701
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (715) 836-9994

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g)of the Act: Common Stock, par value $0.01 per share (Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES __ NO X

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES __ NO X

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES X NO

Indicate by check mark whether disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or other information statements incorporated by reference in Part III of this Form 10-K or any amendments to this Form 10-K. X

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company.
Large accelerated filer ___ Accelerated filer ___ Non-accelerated filer ___ Smaller reporting company X

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ___ NO X

The aggregate market value of the voting stock held by non-affiliates of the registrant, computed by reference to the average of the bid and asked price of such stock as of the last business day of the registrant's most recently completed second fiscal quarter, was $55,187,753. (The exclusion from such amount of the market value of the shares owned by any person shall not be deemed an admission by the registrant that such person is an affiliate of the registrant.)

As of December 18, 2008, there were issued and outstanding 6,095,561 shares of the Registrant's common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Part II of Form 10-K B Annual Report to Stockholders for the fiscal year ended September 30, 2008.
Part III of Form 10-K B Portions of the Proxy Statement for the 2009 Annual Meeting of Stockholders.

PART I

Item 1. Description of Business

General

Historically, Citizens Community Federal (the "Bank") was a federal credit union. The Bank accepted deposits and made loans to members, who live, work or worship in the Wisconsin counties of Chippewa and Eau Claire, and parts of Pepin, Buffalo and Trempealeau. In addition, this included businesses and other entities located in these counties, and members and employees of the Hocak Nation. In December 2001, the Bank converted to a federal mutual savings bank in order to better serve our customers and the local community through the broader lending ability of a federal savings bank, and to expand our customer base beyond the limited field of membership permitted for credit unions. As a federal savings bank, the Bank has expanded authority in structuring residential mortgage and consumer loans, and the ability to make commercial loans, although the Bank does not currently have any immediate plans to commence making commercial loans. In 2004, Citizens Community Federal reorganized into the mutual holding company form of organization.

On July 1, 2005, Citizens Community Bancorp acquired Community Plus Savings Bank, Rochester Hills, Michigan, through a merger with and into Citizens Community Federal. In accordance with the merger agreement, Citizens Community Bancorp issued 705,569 additional shares to Citizens Community MHC, based on the $9.25 million independently appraised value of Community Plus Savings Bank. At June 30, 2005, Community Plus Savings Bank had total assets of $46.0 million and deposits and other liabilities of $41.8 million, prior to purchase accounting adjustments.

On October 31, 2006, Citizens Community MHC (the "MHC") completed its reorganization into stock form and Citizens Community Bancorp, Inc. (the "Company") succeeded to the business of Citizens Community Bancorp, the MHC's former stock holding company subsidiary. Each outstanding share of common stock of the former mid-tier stock holding company (other than shares held by the MHC which were canceled) was converted into 1.91067 shares of common stock of the Company. As part of the second-step mutual to stock conversion transaction, the Company sold a total of 5,290,000 shares to eligible depositors of the Bank in a subscription offering at $10.00 per share, including 341,501 shares purchased by the Bank's employee stock ownership plan with funds borrowed from the Company.

The Bank is a federally chartered stock savings institution with 20 full-service offices - nine stand-alone locations and 11 in-store Wal-Mart Supercenter branches. Citizens acquired a branch in Chippewa Falls, Wisconsin, in November 2002, as well as a branch in Mankato, Minnesota in November of 2003, opened a new branch office in Oakdale, Minnesota on October 1, 2004, and, as noted, acquired Community Plus Savings Bank's Lake Orion and Rochester Hills, Michigan, branches on July 1, 2003.

On January 22, 2008, the Bank signed a letter of intent with Wal-Mart to open seven branches during 2008 in Wal-Mart Supercenters in Wisconsin and Minnesota. To date, the Bank has opened new Wal-Mart Supercenter in-store branches in Brooklyn Park, Faribault, Hutchinson and Red Wing, Minnesota. The Bank has moved its existing branches in Black River Falls, Rice Lake and Wisconsin Dells, Wisconsin to the new Wal-Mart Supercenter locations in those respective communities. An additional letter of intent was signed with Wal-Mart to open a branch in Winona, Minnesota, which opened on November 3, 2008. On October 30, 2008, the Bank signed an agreement with Wal-Mart to open six branches during 2009 in Wal-Mart Supercenters in Oak Park Heights, Minnesota, and Menomonie, Neenah, Plover, Shawano and Wisconsin Rapids, Wisconsin.

On April 9, 2008, the Bank announced that it had entered into an agreement with American National Bank (ANB) of Beaver Dam, Wisconsin, to acquire three ANB branches located in Wal-Mart Supercenters located in Appleton, Fond du Lac and Oshkosh, Wisconsin. The Bank completed these branch acquisitions on August 3, 2008.

Citizens Community Bancorp, Inc. is incorporated under the laws of the State of Maryland to hold all of the stock of Citizens Community Federal. Citizens Community Bancorp, Inc. is a unitary savings and loan holding company and is subject to regulation by the Office of Thrift Supervision (OTS). Citizens Community Bancorp, Inc. has no significant assets other than all of the outstanding shares of common stock of Citizens Community Federal, the net proceeds of the reorganization it kept and its loan to the Citizens Community Bancorp, Inc. employee stock ownership plan.

At September 30, 2008, the Company had total assets of $480 million, total deposits of $297.2 million and stockholders' equity of $68.5 million. The Company and the Bank are examined and regulated by the OTS, its primary federal regulator. The Company and the Bank are also regulated by the FDIC. The Bank is required to have certain reserves set by the Federal Reserve Board and is a member of the Federal Home Loan Bank of Chicago, which is one of the 12 regional banks in the Federal Home Loan Bank System.

Forward Looking Statements

This document, including information incorporated by reference, contains forward-looking statements about the Company and its subsidiary which we believe are within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, without limitation, statements with respect to anticipated future operating and financial performance, growth opportunities, interest rates, cost savings and funding advantages expected or anticipated to be realized by management. Words such as "may," "could," "should," "would," "believe," "anticipate," "estimate," "expect," "intend," "plan" and similar expressions are intended to identify these forward-looking statements. Forward-looking statements by the Company and its management are based on beliefs, plans, objectives, goals, expectations, anticipations, estimates and the intentions of management and are not guarantees of future performance. The Company disclaims any obligation to update or revise any forward-looking statements based on the occurrence of future events, the receipt of new information, or otherwise. The important factors we discuss below, as well as other factors discussed under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" as identified in our filings with the SEC and those presented elsewhere by our management from time to time, could cause actual results to differ materially from those indicated by the forward-looking statements made in this document:

- further developments in the Company's ongoing review of and efforts to resolve possible problem credit relationships, which could result in, among other things, further downgrades of loans, additional provisions to the loan loss reserve and the incurrence of other material non-cash and cash charges;
- the strength of the U.S. economy in general and the strength of the local economies in which we conduct operations;
- the effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Federal Reserve Board;
- inflation, interest rate, market and monetary fluctuations;
- the timely development of and acceptance of our new products and services, and the perceived overall value of these products and services by users including the features, pricing and quality compared to competitors' products and services;
- the willingness of users to substitute our products and services for products and services of our competitors;
- the impact of changes in financial services' laws and regulations (including laws concerning taxes, banking, securities and insurance);
- the impact of technological changes;
- acquisitions;
- changes in consumer spending and saving habits; and

- our success at managing the risks detailed above.

The Company disclaims any obligation to update or revise any forward-looking statements based on the occurrence of future events, the receipt of new information, or otherwise.

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Market Area

The Bank is a community-oriented financial institution offering a variety of financial services to meet the needs of the communities we serve. The Bank is headquartered in Eau Claire, Wisconsin, and has 20 branch offices - nine stand-alone locations and 11 Wal-Mart Supercenter in-store branches - primarily serving Wisconsin, central and southern Minnesota, and the northern suburbs of Detroit and Oakland and Macomb counties in Michigan.

Competition

The Bank faces strong competition in originating real estate and other loans, and in attracting deposits. Competition in originating real estate loans comes primarily from other savings institutions, commercial banks, credit unions and mortgage bankers. Other savings institutions, commercial banks, credit unions and finance companies provide vigorous competition in consumer lending.

The Bank attracts deposits through its branch office system. Competition for those deposits is principally from other savings institutions, commercial banks and credit unions located in the same community, as well as mutual funds and other alternative investments. The Bank competes for these deposits by offering superior service and a variety of deposit accounts at competitive rates.

Internet Website

The Company maintains a Website at www.citizenscommunityfederal.net. The information contained on that Website is not included as part of, or incorporated by reference into, this Annual Report on Form 10-K. Citizens Community Bancorp, Inc. currently makes available on or through its Website its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K or amendments to these reports. These materials are also available free of charge on the Securities and Exchange Commission's Website at www.sec.gov.

Selected Consolidated Financial Information

This information is incorporated by reference from pages 2 and 3 of the 2008 Annual Report to Stockholders attached hereto as Exhibit 13 ("Annual Report").

Yields Earned and Rates Paid

This information contained under the section captioned "Average Balances, Net Interest Income, Yields Earned and Rates Paid" is incorporated herein by reference from page 14 of the Annual Report.

Rate/Volume Analysis

This information is incorporated by reference from page 15 of the Annual Report.

Average Balance, Interest and Average Yields and Rates

This information contained under the section captioned "Average Balances, Net Interest Income, Yields Earned and Rates Paid" is incorporated herein by reference from page 14 of the Annual Report.

Lending Activities

General. Citizens Community Federal's first mortgage loans currently being originated carry a fixed rate of interest. First mortgage loans generally are long-term and amortize on a monthly basis with principal and interest due each month. A majority of Citizens Community Federal's first mortgage loans also contain a payable-on-demand clause, which allows Citizens Community Federal to call the loan due after a stated period, usually between two and five years from origination. Citizens Community Federal also has home equity loans in its portfolio, which have an interest rate that adjusts based on the prime rate. At September 30, 2008, the net loan portfolio totaled $368.5 million, which constituted 76.8% of total assets.

Mortgage loans up to $500,000 and consumer loans may be approved at various levels by loan officers and senior management. The President may approve loans up to our regulatory lending limit, along with recommendations from the Chief Financial Officer and the Executive Vice President. Loans outside our general underwriting guidelines must be approved by the board of directors. At September 30, 2008, our regulatory lending limit to any one borrower and the borrower's related entities was approximately $7.0 million. The largest lending relationship to a single borrower or a group of related borrowers consisted of four loans to a single borrower with a total balance of $654,000. These loans were current as of September 30, 2008.

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Loan Portfolio Composition. The following table presents information concerning the composition of the Citizen Community Federal's loan portfolio in dollar amounts and in percentages (before deductions for allowances for loan losses) as of the dates indicated.

	At September 30,									
	2008		2007		2006		2005		2004	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)									
Real Estate Loans:										
One- to four-family first mortgages	$193,958	52.5%	$177,281	55.3%	$156,235	60.3%	$136,647	62.5%	$ 89,841	58.8%
Second mortgages	10,774	2.8	10,461	3.2	9,161	3.5	7,630	3.5	5,398	3.5
Multi-family and commercial	180	0.1	215	0.1	240	0.1	274	0.1	321	0.2
Total real estate loans	204,912	55.4	187,957	58.6	165,636	63.9	144,551	66.1	95,560	62.5
Consumer Loans:										
Automobile (1)	25,887	7.0	27,168	8.5	24,445	9.4	25,980	11.9	25,808	16.9
Other secured personal loans (2)	133,181	36.0	100,966	31.5	64,384	24.9	43,460	19.8	27,607	18.0
Unsecured personal loans (3)	5,797	1.6	4,610	1.4	4,774	1.8	4,743	2.2	3,955	2.6
Total consumer loans	164,865	44.6	132,744	41.4	93,603	36.1	74,183	33.9	57,370	37.5
Gross loans	369,777	100.0%	320,701	100.0%	259,239	100.0%	218,734	100.0%	152,930	100.0%
Net deferred loan costs	(67)		252		63		---		---	
Allowance for loan losses	(1,192)		(926)		(835)		(803)		(554)	
Total loans receivable, net	$368,518		$320,027		$258,467		$217,931		$152,376	

(1) Includes both direct and indirect lending activities.
(2) Includes both direct and indirect lending activities for personal items other than automobiles.
(3) Includes only direct lending.

The following table shows the composition of Citizen Community Federal's loan portfolio by fixed- and adjustable-rate at the dates indicated.

	At September 30,									
	2008		2007		2006		2005		2004	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
xed Rate Loans:					(Dollars in thousands)					
Real estate										
One- to four-family first ortgages(1)	$ 189,247	51.1%	$ 170,127	53.0%	$ 148,211	57.0%	$ 128,300	58.7%	$ 89,841	58.8
Second mortgages	10,373	2.8	9,989	3.1	8,367	3.2	6,189	2.8	4,772	3.1
Multi-family and commercial	180	0.1	215	0.1	240	0.1	274	0.1	321	0.2
Total fixed-rate real estate ans	199,800	54.0	180,331	56.2	156,818	60.3	134,763	61.6	94,934	62.1
Consumer loans	164,865	44.6	132,744	41.4	93,603	36.3	74,183	33.9	57,370	37.5
Total fixed rate loans	364,665	98.6	313,075	97.6	250,421	96.6	208,946	95.5	152,304	99.6
djustable Rate Loans:										
Real estate										
One- to four-family first ortgages	4,711	1.3	7,154	2.2	8,024	3.1	8,347	3.8	---	---
Second mortgages	401	0.1	472	0.2	794	0.3	1,441	0.7	626	0.4
Multi-family and commercial	---	---	---	---	---	---	---	---	---	---
Total adjustable rate al estate loans	5,112	1.4	7,626	2.4	8,818	3.4	9,788	4.5	626	0.4
Consumer	---	---	---	---	---	---	---	---	---	---
Total adjustable rate loans	5,112	1.4	7,626	2.4	8,818	3.4	9,788	4.5	626	0.4
Total loans	369,777	100.0%	320,701	100.0%	259,239	100.0%	218,734	100.0%	152,930	100.0
Net deferred loan costs	(67)		252		63		---		---	
Allowance for loan losses	(1,192)		(926)		(835)		(803)		(554)	
Total loans receivable, net	$ 368,518		$ 320,027		$ 258,467		$ 217,931		$ 152,376	

(1) Includes $162.5 million in 2008, $144.5 million in 2007, $122.2 million in 2006, $102.9 million in 2005 and $81.6 million in 2004 of loans with a payable-on-demand clause.

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The following schedule illustrates the contractual maturity of Citizen Community Federal's loan portfolio at September 30, 2008. Mortgages which have adjustable or renegotiable interest rates are shown as maturing in the period during which the contract is due. The schedule does not reflect the effects of possible prepayments or enforcement of payable-on-demand clauses.

	Real Estate						Consumer					
	One- to Four-Family First Mortgage(1)		Second Mortgage		Multi-Family and Commercial		Automobile		Secured Personal		Unsecure Persona	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Wei Ave R
2009(2)	$ 107	6.67%	$ 770	7.57%	$180	7.12%	$ 918	9.10%	$ 2,275	7.11%	$2,863	14
2010	225	2.83	885	7.94	---	---	2,930	9.12	2,638	8.61	658	10
2011	185	6.61	1,156	8.75	---	---	6,285	9.46	6,359	8.59	651	10
2012-2013	1,438	5.22	2,681	8.76	---	---	13,576	8.98	21,487	8.62	1,549	10
2014-2015	2,514	5.84	1,668	8.84	---	---	1,092	8.03	16,356	7.84	17	7
2016-2030	54,140	6.13	3,354	8.38	---	---	1,086	8.16	84,026	7.96	59	4
2031 and after	135,349	6.41	260	5.99	---	---	---	---	40	7.57	---	
	$193,958	6.32%	$10,774	8.43%	$180	7.12%	$25,887	9.04%	$133,181	8.08%	$5,797	12

(1) Includes $162.5 million of loans with a payable-on-demand clause.
(2) Includes home equity lines of credit, credit card loans, loans having no stated maturity and overdraft loans.

The total amount of loans due after September 30, 2008, which have predetermined interest rates is $364.7 million, while the total amount of loans due after such date which have floating or adjustable interest rates is $5.1 million.

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First Mortgage Lending. Citizens Community Federal focuses its lending efforts primarily on the origination of loans secured by first mortgages on owner-occupied, one- to four-family residences in our market area. At September 30, 2008, one- to four-family residential mortgage loans totaled $194.0 million, or 52.5% of the gross loan portfolio.

Citizens Community Federal generally underwrites its one- to four-family loans based on the applicant's employment and credit history, their debt to income ratio and the appraised value of the subject property. Presently, Citizens Community Federal generally lends up to 80% of the appraised value for one- to four-family residential loans and up to 70% for non-owner occupied residential loans. For loans used to purchase the property with a loan-to-value ratio in excess of 80%, Citizens Community Federal requires private mortgage insurance in order to reduce our exposure below 80%. Properties securing one- to four-family loans are appraised by independent fee appraisers approved by the board of directors to the extent the loan exceeds $50,000. In-house appraisals, prepared by persons other than the originating loan officer, may be used for loans of less than $50,000, or loans of less than $100,000 if the loan-to-value ratio is less than 50%. Citizens Community Federal requires its borrowers to obtain evidence of clear title and hazard insurance, and flood insurance, if necessary.

Citizens Community Federal currently originates most of its one- to four-family mortgage loans on a fixed-rate basis. Citizens Community Federal's pricing strategy for mortgage loans includes setting interest rates that benefit our asset/liability management strategies. Our one- to four-family loans are not assumable.

Most mortgage loans include a payable-on-demand clause, which allows the loan to be called at any time after the demand date. Citizens Community Federal has had no reason to utilize the clause over the past several years, because rates have been historically low during this period. May 2000 was the last and only time the clause was utilized. At that time, 13 loans, totaling $541,442, were called. It is Citizens Community Federal's policy to write the majority of its real estate loans with a payable-on-demand clause. The intent of the clause is to give Citizens Community Federal some ability to protect against sharp and prolonged interest rate increases and their impact on net interest margin. The clause is not intended for responding to temporary interest rate fluctuations. The following factors are considered in determining whether and when to utilize the clause: (1) a significant, prolonged increase in market rates of interest; (2) the liquidity needs of Citizens Community Federal; (3) Citizens Community Federal's desire to restructure its balance sheet; and (4) an unsatisfactory payment history, including delinquent real estate taxes. Other factors considered include the remaining term of the loan (i.e., a shorter remaining term could justify not calling a loan with the same rate as a loan with a longer remaining term), other lending relationships, payment history and the equity position of the borrower. When Citizens Community Federal determines to utilize the clause, we call loans with the lowest interest rates first.

The following trigger guidelines are used to determine whether to utilize the payable-on-demand clause: (1) when rates available for six-month investment certificates of deposit exceed the rate on loans eligible to be called under the payable-on-demand clause by more than 75 basis points; or (2) when local market rates of interest for real estate loans exceed the rate on existing loans with the payable-on-demand clause by 150 basis points. If either of these triggers are reached, management has 12 months to utilize the clause and call loans, if management determines that doing so would be in the overall best interests of Citizens Community Federal. The existence of the payable-on-demand clauses is not considered as a factor in determining our accounting policies for loan origination fees and costs, because we have only used the clause once in May 2000 with respect to 13 loans.

The demand date is set based on the loan-to-value ratio and other underwriting criteria, and is usually two to five years from the date of origination. During the fiscal year ended September 30, 2008, Citizens Community Federal originated $43.7 million of one- to four-family loans that included the payable-on-demand clause. Fixed-rate loans secured by one- to four-family residences have contractual maturities of up to 30 years, and are generally fully amortizing, with payments due monthly.

The Company's mortgage banking operation had minimal activity in 2008.

Second Mortgage Lending. Citizens Community Federal also offers second mortgage loans and home equity lines of credit. Home equity lines of credit totaled $401,000 and comprised 0.01% of the gross loan portfolio at September 30, 2008. These loans may be originated in amounts, together with the amount of the existing first mortgage, of up to 80% of the value of the property securing the loan. A loan may go over 80% of the value of the property securing the loan if Citizens Community Federal holds the first mortgage. Home equity lines of credit are originated with an adjustable rate of interest, based on the prime rate of interest plus a margin, fixed for the first year and adjustable monthly thereafter. Home equity lines of credit have up to a 10-year draw period and require the payment of 1.5% of the outstanding loan balance per month during the draw period, which amount may be re-borrowed at any time during the draw period. Once the draw period has lapsed, the payment is fixed based on the loan balance at that time. At September 30, 2008, un-funded commitments on these lines of credit totaled $660,000.

Citizens Community Federal also offers second mortgage loans with a fixed rate of interest. These loans may be amortized up to 15 years with a balloon payment at three, five or 10 years. At September 30, 2008, fixed-rate second mortgage loans totaled $10.4 million, or 2.8% of the gross loan portfolio.

Consumer Lending. At September 30, 2008, consumer and other loans totaled $164.9 million, or 44.6% of the gross loan portfolio. Citizens Community Federal offers a variety of secured consumer loans, including new and used auto, motorcycle, boat and recreational vehicle loans, loans secured by savings deposits, and a limited amount of unsecured loans. Citizens Community Federal originates consumer and other loans primarily in its market areas. For fiscal 2008, consumer lending increased as a result of a strong loan demand throughout our growing branch system.

Citizens Community Federal originates secured loans on an indirect basis through its indirect dealer program. These secured consumer loans consist of loans for a wide variety of products, including motorcycles, recreational vehicles, pianos, all-terrain vehicles, pools and spas. An indirect dealer network is currently comprised of 859 active dealers with businesses located throughout Citizens Community Federal's market area. In some instances, the participating dealer may receive a premium rate for the amount over our initial interest rate. The loans are generally originated with terms from 36 to 60 months and carry fixed rates of interest. Citizens Community Federal follows its internal underwriting guidelines in evaluating loans obtained through the indirect dealer program, including using credit scoring to approve loans.

Auto loans totaled $25.9 million at September 30, 2008, or 7.0% of gross loans. Auto loans may be written for up to five years for a new car and four years for a used car with fixed rates of interest. Loan-to-value ratios are up to 100% of the sales price for new autos and 100% of the retail value on used autos, based on a valuation from official used car guides. In addition, Citizens Community Federal may, on occasion, originate secured auto loans in excess of 100% loan-to-value ratio based upon the credit quality of the borrower. Auto loans also may be originated through Citizens Community Federal's indirect lending program. Indirect auto loans are made using the same underwriting guidelines as auto loans originated directly by Citizens Community Federal.

Citizens Community Federal originates secured direct loans on a variety of collateral with terms varying from 36 to 60 months. At September 30, 2008, Citizens Community Federal had secured direct consumer loans totaling $37.1 million, of which $18.3 million was for automobiles. At September 30, 2008, the indirect lending portfolio totaled $122 million, of which $7.6 million was for automobiles.

Citizens Community Federal also originates unsecured consumer loans consisting primarily of credit card loans totaling $1.4 million at September 30, 2008, overdraft protection loans totaling $910,000 at September 30, 2008, and loans made through the Freedom Loan program. The Freedom Loan program offers unsecured loans to consumers with a fixed rate of interest for a maximum term of 48 months for amounts not to exceed $20,000 per individual. At September 30, 2008, loans originated through the Freedom Loan program totaled $4.1 million.

Consumer loans generally have shorter terms to maturity, which reduces Citizens Community Federal's exposure to changes in interest rates, and carry higher rates of interest than do one- to four-family residential mortgage loans. In addition, management believes that offering consumer loan products helps to expand and create stronger ties to our existing customer base by increasing the number of customer relationships and providing cross-marketing opportunities.

Consumer and other loans may entail greater risk than do one- to four-family residential mortgage loans, particularly in the case of consumer loans which are secured by rapidly depreciable assets, such as automobiles and recreational vehicles. In these cases, any repossessed collateral for a defaulted loan may not provide an adequate source of repayment of the outstanding loan balance. As a result, consumer loan collections are dependent on the borrower's continuing financial stability and, thus, are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy.

Multi-family and Commercial Real Estate Lending. We generally do not engage in this type of lending, but may consider doing so in the future. However, as part of the acquisition of the Chippewa Falls branch on November 1, 2002, Citizens Community Federal obtained a nominal amount of multi-family and commercial real estate loans.

At September 30, 2008, our two multi-family and commercial real estate loans totaled $180,000, or 0.01% of our loan portfolio. In order to monitor the adequacy of cash flows on these loans, the borrower is requested or required to provide periodic financial information.

Loan Originations and Repayments

Citizens Community Federal originates loans through marketing efforts and our existing and walk-in customers. The ability to originate loans is dependent upon customer demand for loans in Citizens Community Federal's market areas. Demand is affected by competition and the interest rate environment. Since becoming a savings bank, Citizens Community Federal has significantly increased its origination of residential real estate loans. During the past few years, Citizens Community Federal, like many other financial institutions, has experienced significant refinancing on loans due to the low interest rate environment prevailing in the United States. In periods of economic uncertainty, the ability of financial institutions, including Citizens Community Federal, to originate or purchase large dollar volumes of real estate loans may be substantially reduced or restricted, with a resultant decrease in interest income. Citizens Community Federal does not engage in, nor have any exposure to, subprime or construction lending.

The following table shows the loan origination, purchase, sale and repayment activities of Citizens Community Federal for the periods indicated.

	Year ended September 30,		
	2008	2007	2006
		(In thousands)	
Originations by Type:			
Real estate(1)	$55,499	$ 41,701	$ 48,280
Non-real estate-consumer	90,143	91,447	70,286
Total loans originated	145,642	133,148	118,566
Loans obtained through merger	---	---	---
Repayments:			
Principal repayments	96,251	71,512	77,564
Loans transferred to other real estate/collateral	315	174	434
Net increase(decrease)	$49,076	$61,462	$ 40,568

(1) Real estate loans include loans with a payable-on-demand feature of $43.7 million in fiscal 2008, $32.1 million in fiscal 2007, and $42.3 million in fiscal 2006. Real estate loans also include home equity lines of credit of $129,000 for fiscal 2008, $349,000 for fiscal 2007 and $125,000 for fiscal 2006.

Asset Quality

Procedures. When a borrower fails to make a payment on a mortgage loan on or before the due date, a late notice is mailed five days after the due date. When the loan is 10 days past due, a loan officer will begin contacting the borrower by phone. This process will continue until satisfactory payment arrangements have been made. If the loan becomes two payments and ten days past due, a notice of right-to-cure default is sent. If the loan becomes over 90 days delinquent, a drive-by inspection is done while further attempts to contact the borrower by phone are made. After the loan is 120 days past due, and acceptable arrangements have not been made, Citizens Community Federal will generally refer the loan to legal counsel, with instructions to prepare a notice of intent to foreclose. This notice allows the borrower up to 30 days to bring the loan current. During this 30-day period, Citizens Community Federal will still attempt to contact the borrower to implement satisfactory payment arrangements. If the loan becomes 150 days past due and satisfactory arrangements have not been made, foreclosure will be instituted.

For consumer loans a similar process is followed, with the initial written contact being made once the loan is five days past due. Follow-up contacts are generally on an accelerated basis compared to the mortgage loan procedure.

Citizens Community Federal divides its loans into two categories, mortgage loans and non-mortgage loans. For all loans in both categories, Citizens Community Federal employs a dual-loss reserve strategy. First, using a running five-year history, all loans, excluding classified loans, are assigned an inherent loss reserve. Next, each loan (mortgage and non-mortgage) that becomes over 61 days delinquent is reviewed by senior management. In addition, Citizens Community Federal assesses several factors including negative change in income, negative change in collateral, negative change in employment and other characteristics.

The procedure for charging off consumer loans does not differentiate between the different types of consumer loans. Citizens Community Federal's loan underwriting is based mainly on the borrowers' ability to pay, along with the value of the collateral. All closed-end consumer loans are either charged off or recognized as a specific loss after they become delinquent 120 days. All open-end consumer loans are charged off or recognized as a specific loss after they become delinquent 180 days. Consumer loans with collateral are charged off or recognized as a specific loss down to collateral resale value less 10 percent if repossession of collateral is assured.

In lieu of charging off the entire balance, loans with non-real estate collateral may be written down to the value of the collateral, if repossession is assured and in process. For open-end and closed-end loans secured by real estate, a current assessment of value will be made no later than 180 days past due. Any outstanding loan balance in excess of the value of the property, less selling costs, is charged off.

Delinquent Loans. The following table sets forth our loan delinquencies by type, number and amount at September 30, 2008.

	Loans Delinquent For:					
	60-89 Days		90 Days and Over		Total Delinquent Loans	
	Number	Amount	Number	Amount	Number	Amount
			(Dollars in thousands)			
Real estate	---	$ ---	10	$1,067	10	$1,067
Consumer(1)	152	687	343	2,188	495	2,875
Total	152	$687	353	$3,255	505	$3,942

(1) Includes credit card accounts.

Non-performing Assets. The table below sets forth the amounts and categories of non-performing assets in our loan portfolio. Loans are placed on non-accrual status when the loan becomes more than 90 days delinquent. At all dates presented, we had no troubled debt restructurings which involve forgiving a portion of interest or principal on any loans or making loans at a rate materially less than that of market rates. Foreclosed assets owned include assets acquired in settlement of loans.

	At September 30,				
	2008	2007	2006	2005	2004
	(Dollars in thousands)				
Non-Accruing Loans:					
One- to four-family	$1,067	$ 297	$ 406	$207	$300
Consumer(1)	2,188	1,223	984	462	397
Total	3,255	1,520	1,390	669	697
Foreclosed Assets:					
One- to four-family	---	94	376	---	---

Consumer	---	29	13	32	---
Total	---	123	389	32	---
Total non-performing assets	$3,255	$1,643	$1,779	$701	$697
Total as a percentage of total assets	0.68%	0.43%	0.63%	0.29%	0.43%

(1) Includes credit card accounts.

For the years ended September 30, 2008, 2007 and 2006, gross interest income, which would have been recorded had the non-accruing loans been current in accordance with their original terms, amounted to $187,000, $101,900 and $52,400, respectively. No amount was included in interest income on these loans for these periods.

Other Loans of Concern. In addition to the non-performing assets set forth in the table above, as of September 30, 2008, there was also an aggregate of $699,000 of loans with respect to which known information about the possible credit problems of the borrowers have caused management to have doubts as to the ability of the borrowers to comply with present loan repayment terms and which may result in the future inclusion of such items in the non-performing asset categories. These loans are not considered "classified" due to their delinquency status; however, they are identified as "watch" loans. They are not reserved for in the allowance for loan losses other than as part of the inherent portion. These loans have been considered in management's determination of the adequacy of our allowance for loan losses.

Classified Assets. OTS regulations provide for the classification of loans and other assets, such as debt and equity securities considered to be of lesser quality, as "substandard," "doubtful" or "loss." An asset is considered "substandard" if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. "Substandard" assets include those characterized by the "distinct possibility" that the insured institution will sustain "some loss" if the deficiencies are not corrected. Assets classified as "doubtful" have all of the weaknesses inherent in those classified "substandard," with the added characteristic that the weaknesses present make "collection or liquidation in full," on the basis of currently existing facts, conditions, and values, "highly questionable and improbable." Assets classified as "loss" are those considered "uncollectible" and of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted.

When we classify problem assets as either substandard or doubtful, we may establish general allowances for loan losses in an amount deemed prudent by management and approved by the board of directors. General allowances represent loss allowances which have been established to recognize the inherent risk associated with lending activities, but which, unlike specific allowances, have not been allocated to particular problem assets. When we classify problem assets as "loss," we are required either to establish a specific allowance for losses equal to 100% of that portion of the asset so classified or to charge off such amount. Our determination as to the classification of our assets and the amount of its valuation allowances is subject to review by the OTS and the FDIC, which may order the establishment of additional general or specific loss allowances.

In connection with the filing of our periodic reports with the OTS and in accordance with our classification of assets policy, we regularly review the problem assets in our portfolio to determine whether any assets require classification in accordance with applicable regulations. On the basis of management's review of our assets, at September 30, 2008, Citizens Community Federal had classified $2.1 million of the loans in its portfolio as substandard, all of which was included in non-performing assets. The total amount classified represented 4.82% of CCB's equity capital and 0.68% of assets at September 30, 2008. The percentage of substandard loans is below comparable industry peers.

Provision for Loan Losses. Citizens Community Federal recorded a provision for loan losses for the year ended September 30, 2008, of $721,000, compared to $470,000 for the year ended September 30, 2007, and $251,000 for the year ended September 30, 2006. The provision for loan losses is charged to income to bring the allowance for loan losses to reflect probable incurred losses based on the factors discussed below under "Allowance for Loan Losses." The provision for loan losses for the year ended September 30, 2008, was based on management's review of such factors which indicated that the allowance for loan losses reflected probable incurred losses in the loan portfolio as of the year ended September 30, 2008.

Allowance for Loan Losses. Citizens Community Federal maintains an allowance for loan losses to absorb probable incurred losses in the loan portfolio. The allowance is based on ongoing, quarterly assessments of the estimated probable incurred losses in the loan portfolio. In evaluating the level of the allowance for loan losses, management considers the types of loans and the amount of loans in the loan portfolio, historical loss experience, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions.

At September 30, 2008, the allowance for loan losses was $1.2 million, or 0.32%, of the total loan portfolio. Assessing the allowance for loan losses is inherently subjective as it requires making material estimates, including the amount and timing of future cash flows expected to be received on impaired loans, that may be susceptible to significant change. In the opinion of management, the allowance, when taken as a whole, reflects estimated probable loan losses in our loan portfolios.

The following table sets forth an analysis of our allowance for loan losses.

	Year Ended September 30,				
	2008	2007	2006	2005	2004
	(Dollars in Thousands)				
Balance at beginning of period	$ 926	$ 835	$ 803	$ 554	$ 467
Charge-offs:					
One- to four-family	(44)	(83)	(19)	(24)	---
Consumer	(448)	(330)	(228)	(212)	(342)
Total charge-offs	(492)	(413)	(247)	(236)	(342)
Recoveries:					
Consumer	37	34	28	31	33
Total recoveries	37	34	28	31	33
Net charge-offs	(455)	(379)	(219)	(205)	(309)
Other-obtained through merger	---	---	---	40	---
Additions charged to operations	721	470	251	414	396
Balance at end of period	$ 1,192	$ 926	$ 835	$ 803	$ 554
Ratio of allowance for loan losses to net loans outstanding at end of period	0.32%	0.29%	0.32%	0.37%	0.36%
Ratio of net charge-offs during the period to average gross loans outstanding during the period	0.13%	0.13%	0.08%	0.12%	0.22%
Ratio of net charge-offs during the period to average non-performing assets	18.58%	22.15%	17.66%	28.37%	49.05%

The distribution of our allowance for losses on loans at the dates indicated is summarized as follows:

	At September 30, 2008			2007			2006		
	Amount of Loan Loss Allowance	Loan Amounts by Category	Percent of Loans in Each Category to Total Loans	Amount of Loan Loss Allowance	Loan Amounts by Category	Percent of Loans in Each Category to Total Loans	Amount of Loan Loss Allowance	Loan Amounts by Category	Percent of Loans in Each Category to Total Loans
	(Dollars in Thousands)								
Real estate	$ 184	$ 204,912	55%	$ 64	$ 187,957	59%	$ 52	$ 165,636	64%
Consumer	1,008	164,865	45	862	132,744	41	783	93,603	36
Unallocated	---	---	---	---	---	---	---	---	---
Total	$ 1,192	$ 369,777	100%	$ 926	$ 320,701	100%	$ 835	$ 259,239	100%

	At September 30, 2005			2004		
	Amount of Loan Loss Allowance	Loan Amounts by Category	Percent of Loans in Each Category to Total Loans	Amount of Loan Loss Allowance	Loan Amounts by Category	Percent of Loans in Each Category to Total Loans
	(Dollars in Thousands)					
Real estate	$ 59	$ 144,551	66%	$ 61	$ 95,560	62%
Consumer	744	74,183	34	490	57,370	38
Unallocated	---	---	---	3	---	---
Total	$ 803	$ 218,734	100%	$ 554	$ 152,930	100%

Investment Activities

Federally chartered savings institutions have the authority to invest in various types of liquid assets, including United States Treasury obligations, securities of various federal agencies, including callable agency securities, certain certificates of deposit of insured banks and savings institutions, certain bankers' acceptances, repurchase agreements and federal funds. Subject to various restrictions, federally chartered savings institutions may also invest their assets in investment grade commercial paper and corporate debt securities, and mutual funds whose assets conform to the investments that a federally chartered savings institution is otherwise authorized to make directly.

The chief financial officer has the basic responsibility for the management of our investment portfolio, subject to the direction and guidance of the ALM Committee. The chief financial officer considers various factors when making decisions, including the marketability, maturity and tax consequences of the proposed investment. The maturity structure of investments will be affected by various market conditions, including the current and anticipated slope of the yield curve, the level of interest rates, the trend of new deposit inflows, and the anticipated demand for funds via deposit withdrawals and loan originations and purchases.

The general objectives of our investment portfolio are to provide liquidity when loan demand is high, to assist in maintaining earnings when loan demand is low and to maximize earnings while satisfactorily managing risk, including credit risk, reinvestment risk, liquidity risk and interest rate risk.

In fiscal 2008, we utilized our expertise as a mortgage loan originator, selectively purchasing non-agency mortgage-backed securities ("MBS") that either met or exceeded our underwriting guidelines. This strategy was employed to complement consumer loan underwriting. Strong loan demand in consumer lending required management of the structure of the balance sheet and compliance with the 35% consumer lending bucket cap. Management chose to increase the asset base by purchasing AAA-rated MBSs funded by FHLB advances. This allowed the Bank to continue making consumer loans.

At the time of purchase, the securities were AAA-rated Jumbo Prime MBS, with an average loan-to-value ratio of 68.98% and an average FICO score of 741. We stayed within the Jumbo Prime sector, purchasing no Sub-Prime or Alt-A MBS to date. Furthermore, while the bank has purchased hybrid ARM securities, we have refrained from purchasing any negative-amortization loans or option ARMs. Finally, the MBS portfolio consists only of those assets that are Secondary Mortgage Enhancement Act of 1984 ("SMMEA") eligible, meaning that the MBS purchased are in one of the two highest rating categories and are first-lien mortgages only.

Although the Bank has maintained this conservative approach to investing in non-agency MBS, it has not been immune to the turmoil of 2008. A portion of the portfolio has recently seen downgrades from one or more rating agencies, primarily in securities created in 2006 and 2007. The securities referenced have not realized any credit losses to date, and continue to pay principal and interest as scheduled. Citizens Community Federal continually monitors these bonds, the entire portfolio and the state of the overall market.

The following table sets forth the composition of Citizens Community Federal's investment securities and interest-bearing deposits at the dates indicated.

	At September 30,					
	2008		2007		2006	
	Book Value	% of Total	Book Value	% of Total	Book Value	% of Total
	(Dollars in Thousands)					

Investment securities:						
Federal Home Loan Bank stock	$5,787	8.52%	$4,822	10.77%	$3,060	63.74%
Interest-bearing deposits with banks	371	0.55	371	0.83	959	19.97
Mortgage-backed securities	61,776	90.93	39,592	88.40	782	16.29
	$67,934	100.00%	$44,785	100.00%	$4,801	100.00%

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Sources of Funds

General. Citizens Community Federal's sources of funds are deposits, borrowings, payment of principal and interest on loans, interest earned on or maturation of other investment securities and funds provided from operations.

Deposits. Citizens Community Federal offers a variety of deposit accounts to both consumers and businesses having a wide range of interest rates and terms. Deposits consist of savings accounts, money market deposit accounts, demand accounts and certificates of deposit. Citizens Community Federal solicits deposits primarily in its market areas, including its Wal-Mart in-store branches, and from financial institutions and has accepted a limited amount of brokered deposits. At September 30, 2008, Citizens Community Federal had $18.3 million of brokered deposits. We obtain these deposits from brokers when the rates requested are less than the amount we pay our retail customers. The typical term for these brokered deposits are 12 to 18 months. Our experience is that these are not volatile deposits subject to significant early withdrawal. Citizens Community Federal primarily relies on competitive pricing policies, marketing and customer service to attract and retain these deposits. Citizens Community Federal from time to time participates in an auction for brokered deposits to assist in finding the lowest cost deposits possible. Citizens Community Federal constantly searches for the most cost-effective source of funds, either through brokered deposits, or through marketing our own rates to protect our margin and maintain our sales culture.

The flow of deposits is influenced significantly by general economic conditions, changes in money market and prevailing interest rates and competition. The variety of deposit accounts we offer has allowed us to be competitive in obtaining funds and to respond with flexibility to changes in consumer demand. We have become more susceptible to short-term fluctuations in deposit flows, as customers have become more interest rate conscious. We try to manage the pricing of our deposits in keeping with our asset/liability management, liquidity and profitability objectives, subject to competitive factors. Based on experience, management believes that Citizens Community Federal's deposits are relatively stable sources of funds. Despite this stability, the ability to attract and maintain these deposits and the rates paid on them has been and will continue to be significantly affected by market conditions.

Deposit Flow

The following table sets forth deposit flows during the periods indicated.

	Year Ended September 30,		
	2008	2007	2006
	(Dollars in Thousands)		
Opening balance	$207,734	$186,711	$177,469
Deposits assumed in ANB branch acquisition	18,406	---	---
Net change in deposits	61,965	14,029	4,060
Interest credited	9,138	6,994	5,182
Ending balance	$297,243	$207,734	$186,711
Net increase	$ 89,509	$ 21,023	$ 9,242
Percent increase	43.1%	11.3%	5.2%

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The following table sets forth the dollar amount of savings deposits in the various types of deposit programs we offered at the dates indicated.

	At September 30,					
	2008		2007		2006	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
	(Dollars in Thousands)					
Transaction Accounts and Savings Deposits:						
Demand accounts	$ 19,017	6.40%	$ 18,657	8.98%	$ 18,669	10.00%
Savings accounts	22,267	7.49	22,855	13.06	24,975	13.38
Money market accounts	44,777	15.06	27,121	11.00	22,262	11.92
Total non-certificates	86,061	28.95	68,633	33.04	65,906	35.30
Certificates:						
6-12 month	67,481	22.70	53,868	25.93	26,413	14.14
15-18 month	52,504	17.67	30,055	14.47	44,715	23.95
24-60 month	21,908	7.37	18,744	9.02	25,313	13.56
Anniversary	265	0.09	170	0.08	463	0.25
Institutional	56,738	19.09	26,378	12.70	14,796	7.92
Borrowers	---	---	---	---	---	---
IRA	12,286	4.13	9,886	4.76	9,105	4.88
Total certificates	211,182	71.05	139,101	66.96	120,805	64.70
Total Deposits	$ 297,243	100.00%	$ 207,734	100.00%	$ 186,711	100.00%

The following table shows rate and maturity information for Citizens Community Federal's certificates of deposit at September 30, 2008.

	0.00-1.99%	2.00-3.99%	4.00 5.99%	Total	Percent of Total
	(Dollars in Thousands)				
Certificate Accounts Maturing During the 12 Months Ended:					
September 30, 2009	$ 377	$ 87,300	$ 97,439	$ 185,116	87.66%
September 30, 2010	---	11,383	6,761	18,144	8.59
September 30, 2011	9	619	3,391	4,019	1.90
September 30, 2012	---	1,493	2,403	3,896	1.84
Thereafter	---	7	---	7	0.01
Total	$ 386	$ 100,802	$ 109,994	$ 211,182	100.00%
Percent of total	0.18%	47.73%	52.09%	100.00%	

The following table indicates the amount of Citizens Community Federal's certificates of deposit by time remaining until maturity as of September 30, 2008.

	3 Months or Less	Over 3 to 6 Months	Over 6 to 12 Months	Over 12 Months	Total
			(In thousands)		
Certificates of deposit less than $100,000	$ 30,280	$ 42,029	$ 65,798	$ 19,695	$ 157,802
Certificates of deposit of $100,000 or more	8,796	14,845	23,368	6,371	53,380
Total certificates of deposit	$ 39,076	$ 56,874	$ 89,166	$ 26,066	$ 211,182

Borrowings. Although deposits are our primary source of funds, Citizens Community Federal may utilize borrowings when they are a less costly source of funds and can be invested at a positive interest rate spread, when it desires additional capacity to fund loan demand or when they meet asset/liability management goals. Borrowings consist of advances from the Federal Home Loan Bank of Chicago. See Note 11 of the Notes to Consolidated Financial Statements.

Citizens Community Federal may obtain advances from the Federal Home Loan Bank of Chicago upon the security of certain of our mortgage loans and mortgage-backed and other securities. These advances may be made pursuant to several different credit programs, each of which has its own interest rate, range of maturities and call features. At September 30, 2008, Citizens Community Federal had $110.2 million in Federal Home Loan Bank advances outstanding and the ability to borrow an additional $38.9 million. These advances were taken as a liquidity source to fund increasing loan demand in previous years, and the purchase of investment securities in fiscal 2008.

Citizens Community Federal is authorized to borrow from the Federal Reserve Bank of Chicago's "discount window" after it has exhausted other reasonable alternative sources of funds, including Federal Home Loan Bank borrowings. We have never borrowed from our Federal Reserve Bank.

The following table sets forth the maximum month-end balance and average balance of borrowings for the periods indicated.

	Year Ended September 30,		
	2008	2007	2006
		(In Thousands)	
Maximum Balance:			
FHLB advances	$ 115,737	$ 96,446	$ 61,200
Average Balance:			
FHLB advances	$ 105,699	$ 48,643	$ 48,700

The following table sets forth certain information as to Citizens Community Federal's borrowings at the dates indicated.

	At September 30,		
	2008	2007	2006

	(Dollars in Thousands)		
FHLB advances	$ 110,245	$ 96,446	$ 61,200
Weighted average interest rate of FHLB advances	4.48%	5.19%	5.52%

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Subsidiary and Other Activities

As a federally chartered savings bank, Citizens Community Federal is permitted by OTS regulations to invest up to 2% of assets, or $9.6 million at September 30, 2008, in the stock of, or unsecured loans to, service corporation subsidiaries. Citizens Community Federal may invest an additional 1% of our assets in service corporations where such additional funds are used for inner-city or community development purposes. Citizens Community Federal does not currently have any subsidiary service corporations.

Employees

At September 30, 2008, the Bank had a total of 91 full-time employees and 126 part-time employees. Employees are not represented by any collective bargaining group. Management considers its employee relations to be good.

REGULATION

Set forth below is a brief description of certain laws and regulations that are applicable to Citizens Community Bancorp, Inc. and Citizens Community Federal. The description of these laws and regulations, as well as descriptions of laws and regulations contained elsewhere herein, does not purport to be complete and is qualified in its entirety by reference to the applicable laws and regulations.

Legislation is introduced from time to time in the United States Congress that may affect our operations. In addition, the regulations governing Citizens Community Bancorp, Inc. and Citizens Community Federal may be amended from time to time by the OTS, the FDIC or the SEC, as appropriate. Any such legislative or regulatory changes in the future could adversely affect our operations and financial condition. No assurance can be given as to whether or in what form any such changes may occur.

Citizens Community Federal

Citizens Community Federal, as a federally chartered savings bank, is subject to regulation and oversight by the OTS extending to all aspects of its operations. Citizens Community Federal also is subject to regulation and examination by the FDIC, which insures the deposits of Citizens Community Federal to the maximum extent permitted by law. This regulation of Citizens Community Federal is intended for the protection of depositors and the insurance of accounts fund and not for the purpose of protecting stockholders. As a federal savings bank, Citizens Community Federal is required to file periodic reports with the OTS and is subject to periodic examinations by the OTS.

OTS Regulation. Our relationship with our depositors and borrowers is regulated to a great extent by federal laws and OTS regulations, especially in such matters as the ownership of savings accounts and the form and content of our mortgage requirements. In addition, the branching authority of Citizens Community Federal is regulated by the OTS. Citizens Community Federal is generally authorized to branch nationwide.

The investment and lending authority of Citizens Community Federal is prescribed by federal laws and regulations, and it is prohibited from engaging in any activities not permitted by such laws and regulations. As a federal savings bank, Citizens Community Federal is required to meet a qualified thrift lender test. This test requires Citizens Community Federal to have at least 65% of its portfolio assets, as defined by regulation, in qualified thrift investments on a monthly average for nine out of every 12 months on a rolling basis. In addition, Citizens may have no more than 35% of total assets in consumer loans, commercial paper and corporate debt securities As an alternative, we may maintain 60% of the Bank's assets in those assets specified in Section 7701(a)(19) of the Internal Revenue Code. Under either test, we are required to maintain a significant portion of our assets in residential-housing-related loans and investments. Any institution that fails to meet the qualified thrift lender test becomes subject to certain restrictions on its operations and must convert to a national bank charter, unless it re-qualifies as, and thereafter remains, a qualified thrift lender. If such an institution has not re-qualified or converted to a national bank within three years after the failure, it must divest of all investments and cease all activities not permissible for a national bank. We were not subject to a similar requirement when we were a credit union and were not in compliance with this requirement at the time we became a federal savings bank. As of September 30, 2008, Citizens Community Federal met this requirement with a qualified thrift lender percentage of 85.4%. In addition, at September 30, 2008, Citizens had 33.8% of its assets in consumer loans, commercial paper and corporate debt securities, in compliance with the limit.

Under OTS regulations, Citizens Community Federal is subject to a lending limit for loans to one borrower or group of related borrowers. This lending limit is equal to the greater of $500,000 or 15% of unimpaired capital and surplus (except for loans fully secured by certain readily marketable collateral, in which case the limit is increased to 25% of impaired capital and surplus). At September 30, 2008, Citizens Community Federal's lending limit under this restriction was $7.0 million. Our outstanding loans are in compliance with this lending limit.

The OTS's oversight of Citizens Community Federal includes reviewing its compliance with the customer privacy requirements imposed by the Gramm-Leach-Bliley Act of 1999 and the anti-money laundering provisions of the USA Patriot Act. The Gramm-Leach-Bliley privacy requirements place limitations on the sharing of consumer financial information with unaffiliated third parties. They also require each financial institution offering financial products or services to retail customers to provide such customers with its privacy policy and with the opportunity to "opt out" of the sharing of their personal information with unaffiliated third parties. The USA Patriot Act significantly expands the responsibilities of financial institutions in preventing the use of the United States financial system to fund terrorist activities. Its anti-money laundering provisions require financial institutions operating in the United States to develop anti-money laundering compliance programs and due diligence policies and controls to ensure the detection and reporting of money laundering. These compliance programs are intended to supplement existing compliance requirements under the Bank Secrecy Act and the Office of Foreign Assets Control Regulations.

We are subject to periodic examinations by the OTS. During these examinations, the examiners may require Citizens Community Federal to provide for higher general or specific loan loss reserves, which can impact our capital and earnings. As a federal savings bank, Citizens Community Federal is subject to a semi-annual assessment, based upon its total assets, to fund the operations of the OTS.

Transactions between Citizens Community Federal and its affiliates generally are required to be on terms as favorable to the institution as transactions with non-affiliates, and certain of these transactions, such as loans to an affiliate, are restricted to a percentage of Citizens Community Federal's capital. In addition, Citizens Community Federal may not lend to any affiliate engaged in activities not permissible for a bank holding company or acquire the securities of most affiliates. Citizens Community Bancorp, Inc. is an affiliate of Citizens Community Federal. Citizens Community Federal has entered into an expense allocation agreement and a tax allocation agreement with Citizens Community Bancorp, Inc. in order to meet these requirements.

The OTS has adopted guidelines establishing safety and soundness standards on such matters as loan underwriting and documentation, asset quality, earnings standards, internal controls and audit systems, interest rate risk exposure and compensation and other employee benefits. Any institution regulated by the OTS that fails to comply with these standards must submit a compliance plan.

The OTS has extensive enforcement authority over all savings associations and their holding companies, including, Citizens Community Federal and Citizens Community Bancorp, Inc. This enforcement authority includes, among other things, the ability to assess civil money penalties, to issue cease-and-desist or removal orders and to initiate injunctive actions. In general, these enforcement actions may be initiated for violations of laws and regulations and unsafe or unsound practices. Other actions or inactions may provide the basis for enforcement action, including misleading or untimely reports filed with the OTS. Except under certain circumstances, public disclosure of final enforcement actions by the OTS is required by law.

FDIC Regulation and Insurance of Accounts. Citizens Community Federal's deposits are insured up to the applicable limits by the FDIC, and such insurance is backed by the full faith and credit of the United States Government. As insurer, the FDIC imposes deposit insurance premiums and is authorized to conduct examinations of and to require reporting by FDIC-insured institutions. It also may prohibit any FDIC-insured institution from engaging in any activity the FDIC determines by regulation or order to pose a serious risk to the deposit insurance fund. The FDIC also has the authority to initiate enforcement actions against Citizens Community Federal and may terminate our deposit insurance if it determines that we have engaged in unsafe or unsound practices or is in an unsafe or unsound condition.

Citizens Community Bancorp, Inc.

As a savings association holding company, Citizens Community Bancorp, Inc. is subject to regulation, supervision and examination by the OTS. Applicable federal law and regulations limit the activities of Citizens Community Bancorp, Inc. and require the approval of the OTS for any acquisition or divestiture of a subsidiary, including another financial institution or holding company thereof. Citizens Community Bancorp, Inc. is an affiliate of Citizens Community Federal, so its transactions with Citizens Community Federal are subject to regulatory limits and must be on terms as favorable to Citizens Community Federal as in transactions with non-affiliates.

If Citizens Community Federal fails the qualified thrift lender test Citizens Community Bancorp, Inc. must obtain the approval of the OTS prior to continuing after such failure, directly or through other subsidiaries, any business activity other than those approved for bank holding companies or their subsidiaries. In addition, within one year of such failure Citizens Community Bancorp, Inc. must register as, and will become subject to, the restrictions applicable to bank holding companies.

Regulatory Capital Requirements

Capital Requirements for Citizens Community Federal. Citizens Community Federal is required to maintain minimum levels of regulatory capital under OTS regulations. These regulations established three capital standards, a tangible capital requirement, a leverage or core capital requirement and a risk-based capital requirement. The OTS is also authorized to impose capital requirements in excess of these standards on a case-by-case basis.

The capital regulations require tangible capital of at least 1.5% of adjusted total assets, as defined by regulation. Tangible capital generally includes common stockholders' equity and retained earnings, and certain noncumulative perpetual preferred stock and related earnings and excludes most intangible assets, which also are deducted from assets for purposes of calculating this capital ratio. At September 30, 2008, Citizens Community Federal had tangible capital of $45.8 million, or 9.6% of adjusted total assets, which was approximately $38.7 million above the required level.

The capital standards require core or Tier 1 capital equal to at least 3.0% of adjusted total assets for the strongest institutions with the highest examination rating and 4.0% of adjusted total assets for all other institutions, unless the OTS requires a higher level based on the particular circumstances or risk profile of the institution. Core capital generally consists of tangible capital, plus certain intangibles. At September 30, 2008, Citizens Community Federal had $7.1 million of intangibles, $0 of which were included in core capital. At September 30, 2008, Citizens Community Federal had core capital equal to $45.8 million, or 9.6% of adjusted total assets, which was $26.8 million above the required level of 4%.

The OTS also requires Citizens Community Federal to have total capital of at least 8.0% of risk-weighted assets. Total capital consists of core or Tier 1 capital, as defined above, and Tier 2 capital, which consists of certain permanent and maturing capital instruments that do not qualify as Tier 1 capital and of the allowance for possible loan and lease losses up to a maximum of 1.25% of risk-weighted assets. Tier 2 capital may be used to satisfy this risk-based requirement only to the extent of Tier 1 capital. In determining the amount of risk-weighted assets, all assets, including certain off-balance sheet items, will be multiplied by a risk weight, ranging from 0% to 100%, based on the risk inherent in the type of asset. The OTS is authorized to require Citizens Community Federal to maintain an additional amount of total capital to account for concentration of credit risk, level of interest rate risk, equity investments in non-financial companies and the risk of non-traditional activities. At September 30, 2008, Citizens Community Federal had $304.2 million in risk-weighted assets and total capital of $46.6 million, or 15.3% of risk-weighted assets, which was $22.3 million above the required level.

The OTS is authorized and, under certain circumstances, required to take certain actions against savings banks that fail to meet these capital requirements, or that fail to maintain an additional capital ratio of Tier 1 capital of at least 4.0% of risk weighted-assets. The OTS is generally required to take action to restrict the activities of an "under-capitalized institution," which is an institution with less than either a 4.0% core capital ratio, a 4.0% Tier 1 risked-based capital ratio or an 8.0% total risk-based capital ratio. Any such institution must submit a capital restoration plan, and, until such plan is approved by the OTS, it may not increase its assets, acquire another institution, establish a branch or engage in any new activities, and generally may not make capital distributions. The OTS is authorized to impose the additional restrictions on under-capitalized institutions.

Any institution that fails to comply with its capital plan or has Tier 1 risk-based or core capital ratios of less than 3.0% or a total risk-based capital ratio of less than 6.0% is considered "significantly undercapitalized" and must be made subject to one or more additional specified actions and operating restrictions that may cover all aspects of its operations and may include a forced merger or acquisition of the institution. An institution with tangible equity to total assets of less than 2.0% is "critically undercapitalized" and becomes subject to further mandatory restrictions on it. The OTS generally is authorized to reclassify an institution into a lower capital category and impose the restrictions applicable to such category if the institution is engaged in unsafe or unsound practices or is in an unsafe or unsound condition. The imposition by the OTS of any of these measures on Citizens Community Federal may have a substantial adverse effect on its operations and profitability.

Institutions with at least a 4.0% core capital ratio, a 4.0% Tier 1 risked-based capital ratio and an 8.0% total risk-based capital ratio are considered "adequately capitalized." An institution is deemed a "well capitalized" institution if it has at least a 5% leverage capital ratio, a 6.0% Tier 1 risked-based capital ratio and a 10.0% total risk-based capital ratio. At September 30, 2008, Citizens Community Federal was considered a "well capitalized" institution.

The OTS is also generally authorized to reclassify an institution into a lower capital category and impose the restrictions applicable to such category if the institution is engaged in unsafe or unsound practices or is in an unsafe or unsound condition. The imposition by the OTS of any of these measures on Citizens Community Federal may have a substantial adverse effect on its operations and profitability.

Capital Requirements for Citizens Community Bancorp, Inc. Citizens Community Bancorp, Inc. is not subject to any specific capital requirements. The OTS, however, does expect Citizens Community Bancorp, Inc. to support Citizens Community Federal, including providing additional capital when Citizens Community Federal does not meet its capital requirements. As a result of this expectation, the OTS regulates the ability of Citizens Community Federal to pay dividends to Citizens Community Bancorp, Inc.

Limitations on Dividends and Other Capital Distributions

OTS regulations impose various restrictions on savings institutions with respect to the ability of Citizens Community Federal to make distributions of capital, which include dividends, stock redemptions or repurchases, cash-out mergers and other transactions charged to the capital account. Citizens Community Federal must file a notice or application with the OTS before making any capital distribution. Citizens Community Federal generally may make capital distributions during any calendar year in an amount up to 100% of net income for the year to date plus retained net income for the two preceding years, so long as it is well-capitalized after the distribution. If Citizens Community Federal, however, proposes to make a capital distribution when it does not meet its current minimum capital requirements (or will not following the proposed capital distribution) or that will exceed these net income limitations, it must obtain OTS approval prior to making such distribution. The OTS may always object to any distribution based on safety and soundness concerns.

Citizens Community Bancorp, Inc. is not subject to OTS regulatory restrictions on the payment of dividends. Dividends from Citizens Community Bancorp, Inc., however, may depend, in part, upon its receipt of dividends from Citizens Community Federal. In addition, Citizens Community Federal may not make a distribution that would constitute a return of capital during the three-year term of the business plan submitted in connection with this mutual holding company reorganization and stock issuance. No insured depository institution may make a capital distribution if, after making the distribution, the institution would be undercapitalized.

Federal Securities Law

The stock of Citizens Community Bancorp, Inc. is registered with the SEC under the Securities Exchange Act of 1934, as amended. Citizens Community Bancorp, Inc. is subject to the information, proxy solicitation, insider trading restrictions and other requirements of the SEC under the Securities Exchange Act of 1934.

Citizens Community Bancorp, Inc. stock held by persons who are affiliates of Citizens Community Bancorp, Inc. may not be resold without registration unless sold in accordance with certain resale restrictions. Affiliates are generally considered to be officers, directors and principal stockholders. If Citizens Community Bancorp, Inc. meets specified current public information requirements, each affiliate of Citizens Community Bancorp, Inc. will be able to sell in the public market, without registration, a limited number of shares in any three-month period.

The SEC and NASDAQ have adopted regulations and policies under the Sarbanes-Oxley Act of 2002 that apply to Citizens Community Bancorp, Inc. as a registered company under the Securities Exchange Act of 1934 and a NASDAQ-traded company. The stated goals of these Sarbanes-Oxley requirements are to increase corporate responsibility, provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies and to protect investors by improving the accuracy and reliability of corporate disclosures pursuant to the securities laws. The SEC and NASDAQ Sarbanes-Oxley-related regulations and policies include very specific additional disclosure requirements and new corporate governance rules. The Sarbanes-Oxley Act represents significant federal involvement in matters traditionally left to state regulatory systems, such as the regulation of the accounting profession, and to state corporate law, such as the relationship between a board of directors and management and between a board of directors and its committees.

TAXATION

Federal Taxation

General. Citizens Community Bancorp, Inc., and Citizens Community Federal are subject to federal income taxation in the same general manner as other corporations, with some exceptions discussed below. The following discussion of federal taxation is intended only to summarize certain pertinent federal income tax matters and is not a comprehensive description of the tax rules applicable to Citizens Community Bancorp, Inc. or Citizens Community Federal. Prior to December 2001, Citizens Community Federal was a credit union and was not generally subject to corporate income tax. The Company files consolidated federal tax returns with Citizens Community Federal. Neither the Company nor Citizens Community Federal has been audited by the Internal Revenue Service during the past five years.

Method of Accounting. For federal income tax purposes, Citizens Community Federal currently reports its income and expenses on the accrual method of accounting and uses a fiscal year ending on September 30 for filing its federal income tax return.

Minimum Tax. The Internal Revenue Code imposes an alternative minimum tax at a rate of 20% on a base of regular taxable income plus certain tax preferences, called alternative minimum taxable income. The alternative minimum tax is payable to the extent such alternative minimum taxable income is in excess of the regular tax. Net operating losses can offset no more than 90% of alternative minimum taxable income. Certain payments of alternative minimum tax may be used as credits against regular tax liabilities in future years. Citizens Community Federal has not been subject to the alternative minimum tax, nor do we have any such amounts available as credits for carryover.

Net Operating Loss Carryovers. A financial institution may carryback net operating losses to the preceding two taxable years and forward to the succeeding 20 taxable years. This provision applies to losses incurred in taxable years beginning after August 6, 1997. At September 30, 2008, Citizens Community Federal had no net operating loss carryforwards for federal income tax purposes.

Corporate Dividends-Received Deduction. We have elected to file a consolidated return with Citizens Community Federal, dividends it receives from Citizens Community Federal will not be included as income to Citizens Community Bancorp, Inc. The corporate dividends-received deduction is 100% or 80%, in the case of dividends received from corporations with which a corporate recipient does not file a consolidated tax return, depending on the level of stock ownership of the payer of the dividend.

State Taxation

Citizens Community Bancorp, Inc. and Citizens Community Federal are subject to the Wisconsin corporate franchise (income) tax, which is assessed at the rate of 7.9% of taxable income. Wisconsin taxable income generally is the same as federal taxable income with certain adjustments. Citizens Community Federal has branch offices in Minnesota and Michigan and, accordingly, is subject to state taxes in these states as well. Neither the Company nor Citizens Community Federal has been audited by Wisconsin or any other state taxing authorities during the past five years.

As a Maryland corporation, Citizens Community Bancorp, Inc. is required to file an annual report with and pay an annual fee to the State of Maryland.

Executive Officers Who Are Not Directors

The business experience for at least the past five years for each of our executive officers who do not serve as directors is set forth below.

John Zettler. Mr. Zettler is currently serving as Chief Financial Officer. In his capacity as Senior Vice President, Mr. Zettler assists the President in all of his duties with primary responsibility for financial information and human resources activity of Citizens Community Federal. Mr. Zettler joined Citizens Community Federal in 1980 and was named Senior Vice President in 1997.

Timothy J. Cruciani. Mr. Cruciani is currently serving as Executive Vice President. He joined Citizens Community Federal in 1989. Mr. Cruciani oversees the operations of Citizens Community Federal.

Rebecca Johnson. Ms. Johnson serves as Senior Vice President MIC/Accounting for Citizens Community Federal, a position she has held since 2002. She directs all computer/data processing and accounting activities associated with Citizens Community Federal. Ms. Johnson joined Citizens Community Federal in 1980.

Item 1A. Risk Factors

An investment in our common stock is subject to risks inherent in our business. Before making an investment decision, you should carefully consider the risks and uncertainties described below together with all of the other information included and incorporated by reference in this report. In addition to the risks and uncertainties described below, other risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition and results of operations. The value or market price of our common stock could decline due to any of these identified or other risks, and you could lose all or part of your investment.

Risks Related to Our Business

Our loan portfolio possesses increased risk due to our substantial number of consumer loans.

Our consumer loans accounted for approximately $164.9 million, or 44.6%, of our total loan portfolio as of September 30, 2008, of which $25.9 million consisted of automobile loans, $133.2 million consisted of personal loans secured by other collateral and $5.8 million consisted of unsecured personal loans. Generally, we consider these types of loans to involve a higher degree of risk compared to first mortgage loans on one- to four-family, owner-occupied residential properties. As a result of our large portfolio of consumer loans, it may become necessary to increase the level of our provision for loan losses, which could hurt our profits. Consumer loans generally entail greater risk than do one- to four-family residential mortgage loans, particularly in the case of loans that are secured by rapidly depreciable assets, such as automobiles. In these cases, any repossessed collateral for a defaulted loan may not provide an adequate source of repayment of the outstanding loan balance. In addition, $7.6 million of our automobile loans and $114.4 million of our other secured consumer loans were indirect loans originated by or through third parties, which present greater risk than our direct lending products. See "Lending Activities - Consumer Lending" and "Asset Quality."

If our allowance for loan losses is not sufficient to cover actual loan losses, our earnings could decrease.

We make various assumptions and judgments about the collectibility of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of our loans. In determining the amount of the allowance for loan losses, we review our loans and our loss and delinquency experience and evaluate economic conditions. Management recognizes that significant new growth in the loan portfolio and the refinancing of existing loans can result in completely new portfolios of unseasoned loans that may not perform in a historical or projected manner. If our assumptions are incorrect, our allowance for loan losses may not be sufficient to cover actual losses, resulting in additions to our allowance. Material additions to our allowance could decrease our net income. Our allowance for loan losses was 0.32% of net loans, and 36.6% of non-performing loans at September 30, 2008. Our regulators periodically review our allowance for loan losses and may require us to increase our provision for loan losses or recognize additional loan charge-offs. Any increase in our allowance for loan losses or loan charge-offs as required by these regulatory authorities will have a material adverse effect on our financial condition and results of operations. As of September 30, 2008, we believe that the current allowance reflects probable incurred credit losses in the portfolio.

Rising interest rates may hurt our profits.

To be profitable we have to earn more interest on our loans and investments than we pay on our deposits and borrowings. Overall, interest rates generally have decreased in fiscal 2008 and 2007. If interest rates begin to rise again, our net interest income and the value of our assets could be reduced if interest paid on interest-bearing liabilities, such as deposits and borrowings, increases more quickly than interest received on interest-earning assets, such as loans and investments. This is most likely to occur if short-term interest rates increase at a faster rate than long-term interest rates, which would cause income to go down. In addition, rising interest rates may hurt our income, because they may reduce the demand for loans and the value of our securities. A flat yield curve also may hurt our income, because it would reduce our ability to reinvest proceeds from loan and investment repayments at higher rates. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Quantitative and Qualitative Disclosures About Market Risk" in the Annual Report, attached hereto as Exhibit 13.

In 2008, yields on deposits and other interest-bearing liabilities increased, while yields on loans decreased, which reduced our net interest margin. The increase in the average balance of interest-earning assets resulted in an increase in return on assets and return on equity. See "Selected Consolidated Financial Information and Other Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations - Quantitative and Qualitative Disclosures About Market Risk" in the Annual Report, attached hereto as Exhibit 13.

If economic conditions deteriorate, our results of operations and financial condition could be adversely impacted as borrowers' ability to repay loans declines and the value of the collateral securing our loans decreases.

Our financial results may be adversely affected by changes in prevailing economic conditions, including decreases in real estate values, changes in interest rates that cause a decrease in interest rate spreads, adverse employment conditions, the monetary and fiscal policies of the federal government and other significant external events. In addition, we have a significant amount of real estate loans. Accordingly, decreases in real estate values could adversely affect the value of collateral securing our loans. Adverse changes in the economy may also have a negative effect on the ability of our borrowers to make timely repayments of their loans. These factors could expose us to an increased risk of loan defaults and losses and have an adverse impact on our earnings.

We operate in a highly regulated environment and may be affected adversely by negative examination results and changes in laws and regulations.

Citizens Community Federal is subject to extensive regulation, supervision and examination by the OTS, our chartering authority, and by the Federal Deposit Insurance Corporation ("FDIC"), the insurer of our deposits. Citizens Community Bancorp, Inc. is subject to regulation and supervision by the OTS. This regulation and supervision governs the activities in which we may engage and are intended primarily for the protection of the deposit insurance fund administered by the FDIC and our depositors. Regulatory authorities have extensive discretion in their supervisory and enforcement activities, including the imposition of restrictions on our operations, the classification of our assets and determination of the level of our allowance for loan losses. Any change in this regulation and oversight, whether in the form of regulatory policy, regulations, legislation or supervisory action, may have a material impact on our operations and profitability.

Strong competition within our market areas may limit our growth and profitability.

Competition in the banking and financial services industry is intense. In our market areas, we compete with numerous commercial banks, savings institutions, mortgage brokerage firms, credit unions, finance companies, mutual funds, insurance companies, and brokerage and investment banking firms operating locally and elsewhere. Some of our competitors have substantially greater resources and broader lending authority than we have, greater name recognition and market presence, which benefit them in attracting business, and offer certain services that we do not or cannot provide. In addition, larger competitors may be able to price loans and deposits more aggressively than we do. Our profitability depends upon our continued ability to successfully compete in our market areas. The greater resources and deposit and loan products offered by some of our competitors may limit our ability to increase our interest-earning assets.

Our business is geographically concentrated in Wisconsin, Minnesota and Michigan and a downturn in economic conditions in these states could reduce our profits.

Most of our loans are to individuals located in Wisconsin, Minnesota and Michigan. Any decline in the economy of these states could have an adverse impact on our earnings. Decreases in local real estate values could adversely affect the value of property used as collateral. Adverse changes in the economy also may have a negative effect on the ability of our borrowers to make timely repayments of their loans, which would have an adverse impact on our earnings.

Difficult market conditions and economic trends have adversely affected our industry and our business.

Negative developments beginning in the latter half of 2007 in the sub-prime mortgage market and the securitization markets for such loans, together with volatility in oil prices and other factors, have resulted in uncertainty in the financial markets in general and a related general economic downturn, which have continued in 2008. Dramatic declines in the housing market, with decreasing home prices and increasing delinquencies and foreclosures, have negatively impacted the credit performance of mortgage and construction loans and resulted in significant write-downs of assets by many financial institutions. In addition, the values of real estate collateral supporting many loans have declined and may continue to decline. General downward economic trends, reduced availability of commercial credit and increasing unemployment have negatively impacted the credit performance of commercial and consumer credit, resulting in additional write-downs. Concerns over the stability of the financial markets and the economy have resulted in decreased lending by financial institutions to their customers and to each other. This market turmoil and tightening of credit has led to increased commercial and consumer delinquencies, lack of customer confidence, increased market volatility and widespread reduction in general business activity. Competition among depository institutions for deposits has increased significantly. Financial institutions have experienced decreased access to deposits or borrowings.

The resulting economic pressure on consumers and businesses and the lack of confidence in the financial markets may adversely affect our business, financial condition, results of operations and stock price.

Our ability to assess the creditworthiness of customers and to estimate the losses inherent in our credit exposure is made more complex by these difficult market and economic conditions. As a result of the foregoing factors, there is a potential for new federal or state laws and regulations regarding lending and funding practices and liquidity standards, and bank regulatory agencies are expected to be very aggressive in responding to concerns and trends identified in examinations. This increased government action may increase our costs and limit our ability to pursue certain business opportunities. We also may be required to pay even higher Federal Deposit Insurance Corporation premiums than the recently increased level, because financial institution failures resulting from the depressed market conditions have depleted and may continue to deplete the deposit insurance fund and reduce its ratio of reserves to insured deposits.

We do not believe these difficult conditions are likely to improve in the near future. A worsening of these conditions would likely exacerbate the adverse effects of these difficult market and economic conditions on us, our customers and the other financial institutions in our market. As a result, we may experience increases in foreclosures, delinquencies and customer bankruptcies, as well as more restricted access to funds.

We may elect or be compelled to seek additional capital in the future, but that capital may not be available when it is needed.

We are required by federal and state regulatory authorities to maintain adequate levels of capital to support our operations. In addition, we may elect to raise additional capital to support the growth of our business or to finance acquisitions, if any, or we may elect to raise additional capital for other reasons. In that regard, a number of financial institutions have recently raised considerable amounts of capital as a result of deterioration in their results of operations and financial condition arising from the turmoil in the mortgage loan market, deteriorating economic conditions, declines in real estate values and other factors. Should we be required by regulatory authorities or otherwise elect to raise additional capital, we may seek to do so through the issuance of, among other things, our common stock or securities convertible into our common stock, which could dilute your ownership interest in the Company.

Our ability to raise additional capital, if needed, will depend on conditions in the capital markets, economic conditions and a number of other factors, many of which are outside our control, and on our financial performance. Accordingly, we cannot assure you of our ability to raise additional capital if needed or on terms acceptable to us. If we cannot raise additional capital when needed or on terms acceptable to us, it may have a material adverse effect on our financial condition and results of operations.

Recent legislative and regulatory initiatives to address these difficult market and economic conditions may not stabilize the U.S. banking system.

The recently enacted Emergency Economic Stabilization Act of 2008 ("EESA") authorizes the United States Department of the Treasury, hereafter the Treasury Department, to purchase from financial institutions and their holding companies up to $700 billion in mortgage loans, mortgage-related securities and certain other financial instruments, including debt and equity securities issued by financial institutions and their holding companies in a troubled asset relief program. The purpose of the troubled asset relief program is to restore confidence and stability to the U.S. banking system and to encourage financial institutions to increase their lending to customers and to each other. The Treasury Department has allocated $250 billion towards the troubled asset relief program capital purchase program. Under the capital purchase program, the Treasury Department will purchase debt or equity securities from participating institutions. The troubled asset relief program is also expected to include direct purchases or guarantees of troubled assets of financial institutions.

EESA also increased Federal Deposit Insurance Corporation deposit insurance on most accounts from $100,000 to $250,000. This increase is in place until the end of 2009 and is not covered by deposit insurance premiums paid by the banking industry. In addition, the Federal Deposit Insurance Corporation has implemented two temporary programs to provide deposit insurance for the full amount of most non-interest bearing transaction accounts through the end of 2009 and to guarantee certain unsecured debt of financial institutions and their holding companies through June 2012. Financial institutions had until December 5, 2008 to opt out of these two programs. The purpose of these legislative and regulatory actions is to stabilize the volatility in the U.S. banking system.

EESA, the troubled asset relief program and the Federal Deposit Insurance Corporation's recent regulatory initiatives may not stabilize the U.S. banking system or financial markets. If the volatility in the market and the economy continue or worsen, our business, financial condition, results of operations, access to funds and the price of our stock could be materially and adversely impacted.

Item 1B. Unresolved Staff Comments

None.

Item 2. Description of Properties

The following table provides a list of the Bank's main and branch offices and indicates whether the properties are owned or leased.

Location	Owned or Leased	Lease Expiration Date	Net Book Value at September 30, 2008 (In Thousands)
ADMINISTRATIVE OFFICES: 2174 EastRidge Center Eau Claire, WI 54701	Leased	April 30, 2012	
BRANCH OFFICES:			
Appleton Branch 3701 E. Calumet St. Appleton, WI 54915	Leased	January 31, 2014	
Black River Falls Branch 611 Highway 54 E. Black River Falls, WI 54615	Leased	January 31, 2014	

Chippewa Falls Branch 427 W. Prairie View Road Chippewa Falls, WI 54729	Owned	N/A	$346
Eastside Branch 1028 N. Hillcrest Parkway Altoona, WI 54720	Owned	N/A	$344
Fairfax Branch 219 Fairfax Street Altoona, WI 54720	Owned	N/A	$762
Fond du Lac Branch 377 N. Rolling Meadows Dr. Fond du Lac, WI 54936	Leased	January 31, 2014	

Location	Owned or Leased	Lease Expiration Date	Net Book Value at September 30, 2008 (In Thousands)
Mondovi Branch 695 E. Main Street Mondovi, WI 54755	Leased	June 30, 2009	
Oshkosh Branch 351 S. Washburn St. Oshkosh, WI 54904	Leased	January 31, 2014	
Rice Lake Branch 2501 West Ave. Rice Lake, WI 54868	Leased	May 10, 2013	
Westside Branch 2125 Cameron Street Eau Claire, WI 54703	Owned	N/A	$287
Wisconsin Dells Branch 130 Commerce St. Wisconsin Dells, WI 53965	Leased	January 31, 2014	
Lake Orion Branch(1) 688 S. Lapeer Road Lake Orion, MI 48362	Leased	February 28, 2012	
Rochester Hills Branch 310 West Tienken Road Rochester Hills, MI 48306	Owned	N/A	$510
Brooklyn Park Branch 8000 Lakeland Ave. Brooklyn Park, MN 55445	Leased	January 31, 2014	
Faribault Branch 150 Western Ave. Faribault, MN 55021	Leased	January 31, 2014	
Hutchinson Branch 1300 Trunk Hwy. 15 S Hutchinson, MN 55350	Leased	January 31, 2014	
Mankato Branch 1410 Madison Avenue Mankato, MN 56001	Leased	October 30, 2010	
Oakdale Branch	Leased	September 30, 2009	

7035 10th Street North Oakdale, MN 55128		
Red Wing Branch 295 Tyler Rd. S Red Wing, MN 55066	Leased	March 3, 2013
Winona Branch 955 Frontenac Dr. Winona, MN 55987	Leased	January 31, 2014

(1) Effective March 1, 2007, Citizens Community Federal has a right to cancel this lease, with the cancellation to take effect 90 days after it exercises the right to cancel.

Item 3. Legal Proceedings

In the opinion of management, the Bank is not a party to any other pending claims or lawsuits that are expected to have a material effect on the Bank's financial condition or operations. Periodically, there have been various claims and lawsuits involving the Bank, mainly as a defendant, such as claims to enforce liens, condemnation proceedings on properties in which the Bank holds security interests, claims involving the making and servicing of real property loans and other issues incident to the Bank's business. Aside from such pending claims and lawsuits, which are incident to the conduct of the Bank's ordinary business, the Bank is not a party to any material pending legal proceedings that would have a material effect on the financial condition or operations of the Bank.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders during the quarter ended September 30, 2008.

PART II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

(a) The information contained in the section captioned "Stockholder Information" in the Annual Report, attached hereto as Exhibit 13, is incorporated herein by reference.

(b) Information regarding our equity compensation plans is included in Item 12 of this Form 10-K.

(c) Issuer Purchases of Equity Securities. The following table summarizes the Company's stock repurchase activity for each month during the three months ended September 30, 2008. All shares repurchased during the three months ended September 30, 2008, were repurchased in the open market.

	(a) Total Number of Shares (or Units) Purchased	(b) Average Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under Plans or Programs
Period ended July 31, 2008	---	---	---	141,020
Period ended August 31, 2008	---	---	---	141,020
Period ended September 30, 2008	---	---	---	141,020
Total for quarter ended September 30, 2008	---	---	---	141,020

Subsequent to September 30, 2008, a new stock repurchase plan was approved. The Company announced its intention to repurchase an additional 10% of its outstanding shares in the open market, or in privately negotiated transactions. These shares will be purchased from time to time over a six-month period ending May 5, 2009, depending on market conditions.

Item 6. Selected Financial Data

The information contained in the section captioned "Selected Consolidated Financial Information" in the Annual Report is incorporated herein by reference.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The information contained in the section captioned "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Annual Report is incorporated herein by reference.

Item 7A Quantitative and Qualitative Disclosures About Market Risk

The information contained in the section captioned "Management's Discussion and Analysis of Financial Condition and Results of Operations - Quantitative and Qualitative Disclosures about Market Risk" in the Annual Report is incorporated herein by reference.

Item 8. Financial Statements and Supplementary Data

Report From Independent Registered Accounting Firm*

(a)	Consolidated Balance Sheets as of September 30, 2008, and 2007*
(b)	Consolidated Statements of Income for the Years Ended September 30, 2008, 2007 and 2006*
(c)	Consolidated Statements of Changes in Stockholders' Equity For the Years Ended September 30, 2008, 2007 and 2006*
(d)	Consolidated Statements of Cash Flows For the Years Ended September 30, 2008, 2007 and 2006*
(e)	Notes to Consolidated Financial Statements*

* Contained in the Annual Report filed as an exhibit hereto and incorporated herein by reference. All schedules have been omitted as the required information is either inapplicable or contained in the Consolidated Financial Statements or related Notes contained in the Annual Report.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

No disclosure under this item is required.

Item 9A. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

An evaluation of the Company's disclosure controls and procedures (as defined in Rule13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) as of September 30, 2008, was carried out under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, and several other members of our senior management. Our Chief Executive Officer concluded that our disclosure controls and procedures as currently in effect are effective in ensuring that the information required to be disclosed in the reports the Company files or submits under the Exchange Act is (i) accumulated and communicated to our management (including the Chief Executive Officer and Chief Financial Officer) in a timely manner, and (ii) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. There have been no changes in our internal controls over financial reporting (as defined in Rule 13a-15(f) under the Act) that occurred during the year ended September 30, 2008, that has materially effected, or is reasonably likely to materially affect, our internal control over financial reporting.

We intend to continually review and evaluate the design and effectiveness of the Company's disclosure controls and procedures and to improve the Company's controls and procedures over time and to correct any deficiencies that we may discover in the future. The goal is to ensure that senior management has timely access to all material financial and non-financial information concerning the Company's business. While we believe the present design of the disclosure controls and procedures is effective to achieve its goal, future events affecting its business may cause the Company to modify its disclosure controls and procedures.

The Company does not expect that its disclosure controls and procedures will prevent all error and all fraud. A control procedure, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control procedure are met. Because of the inherent limitations in all control procedures, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any control procedure also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control procedure, misstatements due to error or fraud may occur and not be detected.

Management's Report on Internal Control Over Financial Reporting

The management of Citizens Community Bancorp, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). The Company's internal control over financial reporting is a process designed to provide reasonable assurance to the Company's management and board of directors regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

The Company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal controls over financial reporting may not prevent or detect misstatements. All internal control systems, no matter how well designed, have inherent limitations, including the possibility of human error and the circumvention of overriding controls. Accordingly, even effective internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of the Company’s internal control over financial reporting as of September 30, 2008. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on our assessment, we believe that, as of September 30, 2008, the Company's internal control over financial reporting was effective based on those criteria.

This annual report does not include an attestation of our independent public accounting firm regarding internal controls over financial reporting. Management's report was not subject to attestation by our independent public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management’s report in this annual report.

Date: December 23, 2008	By:	/s/ James G. Cooley James G. Cooley President (Principal Executive Officer)
Date: December 23, 2008		/s/ John D. Zettler John D. Zettler Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act

Directors

Information concerning the directors of the Company is incorporated herein by reference from the definitive proxy statement for the annual meeting of shareholders to be held February 26, 2009, a copy of which will be filed not later than 120 days after the close of the fiscal year.

Executive Officers

Information concerning the executive officers of the Company is incorporated herein by reference from the definitive proxy statement for the annual meeting of shareholders to be held February 26, 2009, except for information contained under the headings "Compensation Committee Report" and "Stock Performance Presentation," a copy of which will be filed not later than 120 days after the close of the fiscal year.

Audit Committee Matters and Audit Committee Financial Expert

The Board of Directors of the Company has a standing Audit/Compliance Committee, which has been established in accordance with Section 3(a)(58)(A) of the Exchange Act. The members of that committee are Directors Westrate (Chairman), McHugh and Schilling, all of whom are considered independent under applicable Nasdaq listing standards. The Board of Directors has determined that Mr. Schilling is an "audit committee financial expert" as defined in applicable SEC rules. Additional information concerning the audit committee of the Company's Board of Directors is incorporated herein by reference from the Company's definitive proxy statement for its Annual Meeting of Stockholders to be held February 26, 2009, except for information contained under the headings "Compensation Committee Report," and "Report of the Audit/Compliance Committee," a copy of which will be filed not later than 120 days after the close of the fiscal year.

Section 16(a) Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires that the Company's directors and executive officers, and persons who own more than 10% of the Company's common stock, file with the SEC initial reports of ownership and reports of changes in ownership of the Company's common stock. Officers, directors and greater than 10% shareholders are required by SEC regulations to furnish the Company with copies of all Section 16(a) forms they file. To the Company's knowledge no late reports occurred during the fiscal year ended September 30, 2008. All other Section 16(a) filing requirements applicable to our executive officers, directors and greater than 10% beneficial owners were complied with.

Code of Ethics

The Company's Code of Business Conduct and Ethics, adopted on October 31, 2006, is applicable to its principal executive officer, principal financial officer and principal accounting officer (as well as all other employees), does meet the definition of "code of ethics" set forth in Item 406 of SEC Regulation S-K. A copy of this document is available free of charge by contacting John D. Zettler, our investor relations officer, at (715) 836-9994. A copy of the Company's Code of Business Conduct and Ethics is being filed with the SEC as Exhibit 14 to this Annual Report on Form 10-K for the fiscal year ending September 30, 2008.

Nomination Procedures

There have been no material changes to the procedures by which stockholders may recommend nominees to the Company's Board of Directors.

Item 11. Executive Compensation

Information concerning executive compensation is incorporated herein by reference from the definitive proxy statement for the annual meeting of shareholders to be held February 26, 2009, except for information contained under the headings "Compensation Committee Report" and "Stock Performance Presentation," a copy of which will be filed not later than 120 days after the close of the fiscal year.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information concerning security ownership of certain beneficial owners and management is incorporated herein by reference from the definitive proxy statement for the annual meeting of shareholders to be held February 26, 2009, except for information contained under the headings "Compensation Committee Report" and "Stock Performance Presentation," a copy of which will be filed not later than 120 days after the close of the fiscal year.

The following table sets forth information as of September 30, 2008, with respect to compensation plans under which shares of common stock were issued.

Equity Compensation Plan Information

Plan Category	Number of securities to be issued upon exercise of outstanding options warrants and rights	Weighted-average exercise price of outstanding options warrants and rights	Number of Securities remaining available for future issuance under equity compensation plans
Equity Compensation Plans Approved By Security Holders	185,110_ (1)	$7.04(1)	519,255 (1)
Equity Compensation Plans Not Approved By Security Holders	---	---	---

(1) Reflects amounts after exchange ratio related to second-step offering.

Item 13. Certain Relationships and Related Transactions

Information concerning certain relationships and related transactions is incorporated herein by reference from the definitive proxy statement for the annual meeting of shareholders to be held February 26, 2009, except for information contained under the headings "Compensation Committee Report" and "Stock Performance Presentation," a copy of which will be filed not later than 120 days after the close of the fiscal year.

PART IV

Item 14. Principal Accountant Fees and Services

Information concerning fees and services by our principal accountants is incorporated herein by reference from our definitive Proxy Statement for the 2008 Annual Meeting of Stockholders, a copy of which will be filed not later than 120 days after the close of the fiscal year.

Item 15. Exhibits and Financial Statement Schedules

(a)(1) Financial Statements:

Part II, Item 8 is hereby incorporated by reference.

(a)(2) Financial Statement Schedules:

All financial statement schedules have been omitted as the information is not required under the related instructions or is not applicable.

(a)(3) Exhibits:

Regulation S-K Exhibit Number	Document				Reference to Prior Filing or Exhibit Number Attached Hereto
3(i)	Articles of Incorporation of the Registrant				*
3(ii)	Bylaws of the Registrant				*
10	Material contracts:				
		(a)	Registrant's 2004 Stock Option Plan		**
		(b)	Registrant's 2004 Recognition and Retention Plan		**
		(c)	Employment Agreements:		
			(i)	James G. Cooley	*
			(iii)	John D. Zettler	*
			(iv)	Timothy J. Cruciani	*
			(v)	Rebecca Johnson	*
		(e)	Tax Allocation Agreement		**
13	2008 Annual Report to Stockholders				13
14	Code of Conduct and Ethics				14
21	Subsidiaries of the Registrant				21
23	Consent of Auditors				23
31	Rule 13a-14(a)/15d-14(a) Certifications				31
32	Section 1350 Certifications				32

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* Filed as exhibit to the Company's registration statement filed on June 30, 2007, (File No.333-135527) pursuant to Section 5 of the Securities Act of 1933. All of such previously filed documents are hereby incorporated herein by reference in accordance with Item 601 of Regulation S-K.

**

Filed as exhibit to Citizen Community Bancorp's Annual Report on Form 10-KSB for the fiscal year ended September 30, 2004.

*** Filed as exhibit to Citizen Community Bancorp's Annual Report on Form 10-KSB for the fiscal year ended September 30, 2005.

SIGNATURES

Pursuant to the requirements of section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CITIZENS COMMUNITY BANCORP, INC.

Date:	December 23, 2008	By:	/s/ James G. Cooley James G. Cooley President and Chief Executive Officer (Duly Authorized Representative)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By:	/s/ Richard McHugh Richard McHugh Chairman of the Board	December 23, 2008
By:	/s/ James G. Cooley James G. Cooley President, Chief Executive Officer and Director (Principal Executive Officer)	December 23, 2008
By:	/s/ Thomas C. Kempen Thomas C. Kempen Vice Chairman of the Board	December 23, 2008
By:	/s/ Brian R. Schilling Brian R. Schilling Director and Treasurer	December 23, 2008
By:	/s/ David B. Westrate David B. Westrate Director	December 23, 2008
By:	/s/ John D. Zettler John D. Zettler	December 23, 2008

Senior Vice President and Chief Financial
Officer
(Principal Financial Officer)

Index to Exhibits

Regulation S-K Exhibit Number	Document
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32	Section 1350 Certifications